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INTRODUCTION

The Office of Internal Audit performed an audit of Arenac County FIA for the period October 1, 1998 through December 8, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Arenac County FIA had 28 full time equated positions (FTE's) at the time of our review. Arenac County FIA provided assistance to an average 1,835 recipients per month during FY 1998, with total assistance payments of \$2,191,503 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Arenac County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
Accounts Receivable	General Ledger
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Food Stamp Inventory and Issuance	Medical Transportation
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage
Child Well Being	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Arenac County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization for a Local Office operating in a small office control environment and one staff in the fiscal office. However, the cash receipting process and controlled document inventories need improvement to strengthen controls.

LOCAL OFFICE RESPONSE

The management of Arenac County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated December 29, 1999 that they are in agreement with Recommendations 2 through 10, and 12. Arenac County FIA has offered an alternative procedure for Recommendation 1 that has been accepted by the Office of Internal Audit. Arenac County FIA does not agree with Recommendation 11.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Delivering Funds Received in the Mail to Designated Staff

1. Arenac County FIA did not have the staff opening the mail deliver the funds received to the staff designated to prepare Official Cashiers Receipts (OCR). The mail logs and funds were delivered to the Fiscal clerk. The Fiscal clerk would restrictively endorse negotiable instruments, and then turn the funds over to the staff designated to prepare the OCRs to verify the funds received with the mail logs. The mail logs and funds should be delivered to the designated staff responsible for preparation of the OCRs. This staff person should

verify the funds received with the mail logs and restrictively endorse negotiable instruments when the OCRs are prepared.

WE RECOMMEND Arenac County FIA have the staff opening the mail deliver the mail logs and funds received through the mail to the staff designated to prepare the Official Cashier Receipts.

Verification of Deposits

2. Arenac County FIA did not follow established procedures for verifying that funds received through the mail were deposited. The Local Office did not have staff independent of the cash receipting process verify that all of the funds received were included in a deposit.

Accounting Manual Item 433, page 4, requires verification that all moneys received by the Cashier are included in the deposit. This is accomplished by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail logs and edit listing prior to the deposit being made improves internal controls over the cash receipting process.

WE RECOMMEND Arenac County FIA verify that all funds received by the Cashier are included in the deposits.

Local Office Directors' Signature Stamp

3. Arenac County FIA did not provide adequate control of a signature stamp bearing the Local Office Directors' signature. The stamp was controlled by the Fiscal Clerk and used

to sign Transmittal Advices and Master Vouchers. Allowing Fiscal Staff to control a signature stamp increases the risk of inappropriate transactions.

WE RECOMMEND Arenac County FIA destroy the signature stamp bearing the Directors' signature.

Returned Local Office Checks

4. Arenac County FIA did not control the disposition of local office checks returned to the office. The disposition of the checks was based on verbal instructions from the worker. Documenting the disposition of the checks with written instructions from the worker strengthens controls over the returned checks.

WE RECOMMEND Arenac County FIA require the workers to notify the fiscal unit in writing of the disposition of returned local office checks

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Cash Disbursements

Sign-O-Meter Record Reconciliation

5. Arenac County FIA did not prepare the Reconciliation Per Check Register section of the Sign-O-Meter Record (FIA-4711) in accordance with established procedures. The check numbers of the checks signed on the Sign-O-Meter Record were entered and then reconciled with line 7 (Number of documents used during the month according to the accounting records) on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351).

Accounting Manual Item 410.1, page 2 requires the beginning and ending numbers of the checks reported on the check register be entered in the Reconciliation Per Check Register

Section of the Sign-O-Meter Record. In order for this control procedure to be effective, the check numbers must be obtained from the check register.

WE RECOMMEND Arenac County FIA obtain the beginning and ending check numbers entered in the Reconciliation Per Check Register section of the Sign-O-Meter Record from the check register.

Accounts Receivable

Reconciliation of the Accounts Receivable Recoupment Activity Report (GH-280)

6. Arenac County FIA did not reconcile the Recoupment Activity Report (GH-280) with the payment information input during the month as required by Accounting Manual Item 481.5, page 9. Reconciliation of this report ensures that all moneys collected are accounted for and the clients' account balances are accurate.

WE RECOMMEND Arenac County FIA reconcile the Recoupment Activity Report (GH-280) with the payment information input during the month.

General Ledger

No findings in this area.

Modified Accrual Basis Balance Sheet

No findings in this area.

Safe and Controlled Documents

Controlled Document Inventory and Reconciliation

7. Arenac County FIA did not properly control the bulk supplies of controlled documents. The Fiscal clerk was responsible for the use, inventory control, and monthly inventory and

reconciliation of checks, food stamp ID cards, gift certificates and for issuing Official Cashiers Receipts (OCRs) when the staff person responsible for issuing OCRs was not available.

Accounting Manual Item 403, page 9 states that when the use and control of a controlled document cannot be separated, an inventory reconciliation by an independent person is required.

Allowing the staff person who prepares and processes documents access to the bulk supply of those documents increases the risk of inappropriate transactions.

WE RECOMMEND Arenac County FIA have staff independent of the use of the controlled documents perform the monthly Controlled Document and Inventory Reconciliation

Food Stamp Inventory and Issuance

Returned Food Stamps

8. Arenac County FIA did not have staff independent of the Fiscal unit review the disposition of food stamps returned to the Local Office as undeliverable. Internal control over the disposition of undeliverable food stamps can be improved by having staff independent of the Fiscal unit review the disposition to determine if the food stamps were disposed of as instructed by the workers.

WE RECOMMEND Arenac County FIA have staff independent of the Fiscal unit review the disposition of food stamps returned in the mail as undeliverable.

Medical Transportation

No findings in this area.

State Emergency Relief

No findings in this area.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

Client Information System (CIS) Enrollment Profile/Security Agreements

9. Arenac County FIA did not have a current CIS Enrollment Profile/Security Agreement (FIA-3974A) on file for eight staff. The status code on the FIA-3974A for seven staff did not agree with the status code listed on the Operator Identification Report (PF-011). The name of one staff on the PF-011 report was different than that on the FIA-3974A. We also found that supervisory staff did not sign the ASSIST Enrollment Profiles (FIA-3720) for four staff. Also, a FIA-3720 for one staff could not be located.

CIS Security Policy, L-Letter L-97-063 requires an FIA-3974A to be prepared for all new users of CIS and for all current operators each time an enrollment change is proposed. Supervisory approval of the ASSIST FIA-3720 is necessary to ensure the job functions for each employee are appropriate.

WE RECOMMEND Arenac County FIA obtain new CIS Enrollment Profile/Security Agreements (FIA-3974A) for the eight staff listed above, and for any employee whose status or name changes.

WE ALSO RECOMMEND Arenac County FIA obtain the supervisors' signature on the ASSIST Enrollment Profile (FIA-3720) forms for the four staff that have not been signed and prepare an FIA-3720 for the one staff that does not have one on file.

Security Officers Log Report (PD-180)

10. Arenac County FIA did not reconcile transactions on the Security Officers Log Report (PD-180) to the Client Information System (CIS) Enrollment Profile/Security Agreements (FIA-3974A's). CIS Security Policy, L-Letter L-97-063, requires the reconciler to verify that each entry on this report is supported by a signed Client Information System Enrollment Profile/Security Agreement to ensure that all changes are accurate. For internal control purposes the reconciler must not be the CIS Security Coordinator and must not have file maintenance capability on CIS.

WE RECOMMEND Arenac County FIA have an independent person reconcile the Security Officers Log Report (PD-180) to revised Client Information System Enrollment Profile/Security Agreements.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

Payroll Record and Retention

11. The Arenac County FIA timekeeper maintained the certified copy of the HR-332A. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND Arenac County FIA have the certifier or someone other than the timekeeper retain the HR-332A.

Procurement Card

Completion of the Procurement Card Transaction Log

12. Arenac County FIA did not complete the Procurement Card Transaction Log properly. The cardholder initials the “Verification of Goods/Received” column on the log. We were informed by the LO Director that the LO Director or other staff will verify receipt of the goods/services purchased.

The Agency’s Primary Internal Control Criteria for Local/District Offices states that the person performing the verification of the goods/services received enters their initials in the “Verification of Goods/Services Received” column on the Procurement Card Transaction Log.

WE RECOMMEND Arenac County FIA have the staff verifying receipt of the goods/services purchased initial the “Verification of Goods/Services Received” column on the Procurement Card Transaction Log.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.